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Economic Conditions
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General Business Conditions.

THE last days of August were full of events of large importance in the business world. The public had refused to believe that a railway strike was really imminent. That "wolf" cry had been heard so often that it was taken to be only an incident of the periodical wage adjustments between the brotherhoods and the companies. There has been such a development of public sentiment in favor of the settlement of such controversies, particularly where the public is vitally concerned, by conciliation and arbitration that few people believed it possible that railway traffic would be suspended. Nevertheless, in the midst of the greatest period of prosperity the country has ever known, when every mill and factory is working to capacity, and wage-earnings are greater than ever before, the entire industrial organization is threatened with paralysis. The railway system when doing its best can scarcely handle the business of the country, and the suspension of freight traffic will quickly force a suspension of industries, and throw out of employment a great many more men than there are in the railway brotherhoods. The losses which must result to all classes if the threat is carried out are beyond computation.

Effect of War Orders.

The hesitating spirit which was noticeable in business circles a few months ago has been changed by the vigorous renewal of war orders, and other evidence that the foreign demand upon our industries is not likely to cease at an early day. The great buying movement early in the year put enough business on the books in most lines to assure activity throughout 1916. Then came a lull, and a disposition to prepare for the end of the war and lower prices, but on August 1st, in the opinion of competent judges, the prospect looked more like two years of war than it did a year ago or at the beginning. The effect was to start a new buying movement in steel and other commodities and to stiffen prices. With no material change in the situation the next few months would see the country's industrial capacity sold out practically to the last quarter of 1917.

The entrance of Rumania into the war is the most important event since the entrance of Italy, and if followed by the entrance of Greece it may cause a revision of opinion as to the prospects for peace. Although either side may be able to hold out in defence for a long time, it is not likely that the war will go to the last ditch.

Meanwhile, under the shadow of the strike, business continues at a record-breaking pace, every line of industry contending with labor shortage and scarcity of materials. Even if the railway dispute is fortunately settled the outlook this fall is for the most serious car shortage and blockade ever known. Upon general principles the business man dreads uncertainties, and so common opinion looks to the end of the war with apprehension. The farther away it is the better we will be prepared for it, is the reasoning. We are reducing our foreign debt, getting our goods into new markets, developing new industries, paying off debts and accumulating capital. Surely we are strengthening our position. These are positive gains and outweigh a good many apprehensions and warnings. Prudent people, however, cannot forget that the longer present abnormal conditions prevail the further we shall get from the natural state of industry and trade to which we must return when the war is over. Wages are still advancing and the process of adjustment to temporary conditions is still going on. It is not comfortable to feel that we are working under an unnatural stimulus, and that every month of these conditions will make the following reorganization more difficult.

Crops and Prices.

The crops are a disappointment. We have been favored with two extraordinary crop yields since the war began, and in the natural order of things could hardly hope for more. We are far from a crop failure, but the yield is sufficiently short to make prices higher for consumers, and they were already high enough to intensify the demands for more wages. The corn crop has been cut down by drought to about 2,500,000,000 bushels, and this inevitably means dear meats. Hogs have been selling on the Chicago market above $11 per hundred weight, and the great consumptive demand for meats is scarcely satisfied. Canadian buyers have been taking hogs freely

from Chicago at the highest prices.

The wheat crop is badly hurt, the total yield probably not exceeding the requirements of this country for food and seed. Fortunately, there are important stocks in this country carried over from the two big crops of 1914 and 1915. British grown wheat has been selling in the interior markets of England above $2 per bushel, and it has seemed quite possible that that price might be reached in the United States. The market went off heavily on the news of Rumania's entrance into the war, on the theory that the Dardannelles might be open before the end of the crop year, and Russian and Rumanian wheat brought out.

Advices from the agricultural districts are generally confident that the buying power of the farmers will not be seriously impaired. This is particularly true of the spring wheat territory of the Northwest, where crops are now so diversified that injury to wheat is not so serious as it was a few years ago. Fortunately there is an unusually good outlook for corn in this territory.

The cotton crop has suffered further deterioration during the past month, drought west of the Mississippi following floods in the East, and predictions are made that it will not be more than 13,000,000 bales. Prices have been ranging above 15 cents per pound, the highest figures on a natural market in many years. High prices for cotton are disturbing the cotton goods trade, but with employment so complete throughout the industries there is not likely to be much curtailment of the demand. The high cost of living which is foreshadowed for the coming year will be a serious matter if there shall be an interruption of employment.

The Railway Wage Controversy.

At this writing a settlement of the railway controversy has not been reached, and a strike order has gone to the membership of the four orders of trainmen, effective at 7 a. m., on September 4th. The President has given his endorsement to the principle of the eight-hour day, but has apparently yielded against his judgment to the demand for an eight-hour day with ten hours pay. He has stated that the present situation must never be allowed to occur again, which can only mean that present demands are unfair, and ought not to be made or granted.

If the public is interested in this controversy, and has rights involved, the public should not be obliged to yield to an arbitrary exercise of power. We do not believe that the great body of membership in the railway orders would wish to ignore the public interest. That is a question of good citizenship, and the railway men as a class are as good citizens as any body of men in the country. They have their leaders, who are authorized to speak for them, by whose advice they are, to a great extent, guided, and in whose hands they have placed large powers. Presumably those powers were intended to be used with great discretion, and we cannot believe that the membership would approve of their use in an extreme manner when a settlement by fair arbitration could be had.

Trainmen must necessarily cover a given "run" over the road. There has been no talk of shortening the "runs," which would involve changing the division points. This would cause great expense to the companies, and, as many of the trainmen own their homes at the present division points, they would probably object for that reason, as well as because they want more pay. The proposal, therefore, is simply that overtime shall begin at eight hours instead of at ten, and be at a twenty-five per cent. higher rate. The rest of the demands the brotherhoods are willing to arbitrate!

The Brotherhood officials have spoken of the unyielding attitude of the railway managers, as though the latter had not shown a conciliatory spirit. If the managers had been holding out for the status quo, or had laid down terms of their own and refused to consider any others, they might be called unyielding. But they have not laid down any terms; they took the full step toward conciliation at once; from the beginning they have offered to arbitrate everything.

The more carefully the situation is considered by the public, the more clearly will it appear that the railway managers have followed the correct course to secure a settlement of the controversy which would be just to all interests concerned. Owing to successive wage increases and other rising costs, with a steadily narrowing margin of net earnings, the position of the railways had become so critical in 1914 that the Inter-State Commerce Commission granted a five per cent. increase in freight rates, effective over the larger part of the mileage of the country. The Commission had refused previous requests, but the point had been reached where even the attorney retained by the Commission to present the negative side of the case, Mr. Brandeis, expressed to the Commission his opinion that the carriers were in need of more revenues. The railways had spent enormous sums of capital to accomplish economies of operation, but these economies were more than offset by the higher wage scales and other costs beyond their control. The Commission was convinced that to enable the railways to raise the new capital continually required for the enlargement of their facilities, they must be allowed to increase their net revenues.

Having been granted the increase of rates, the companies were under obligations to conduct their operations with proper economy, conserve the increase for the purposes for which it was granted, and avoid, if possible, the necessity of going back to the Commission for permission to again raise charges upon the public. The railway authorities would be censurable if they failed to recognize the rights of the public in this situation, particularly in view of the numerous wage advances that have been granted.

The Public Right to Arbitration.

This question cannot be properly settled by simply granting the Brotherhoods what they ask and then reimbursing the railways for the cost by higher charges upon the public. That may satisfy the railway executives, but it is not just to the public. If the wage increases are to be paid by the public, the wage rates and conditions of service should be considered in comparison with the wages and working conditions of the main body of the public. They should have some just relation to the wages of the other classes of railway employes.

There are natural differences in rates of pay which will be maintained, even though there is perfect liberty in the employment field, but great care should be exercised when such differences are established arbitrarily by the power of small organizations holding strategic positions. The essential principle of democracy is that no class or group shall seize upon a strategic position and exercise its powers with injustice to others. A position of control over the railways gives that power. Industry cannot go on, the people cannot live, without using the railways, and no class or group of men should have unrestrained control over these highways. The owners have been obliged to accept public supervision. The public, through its agencies, determines what charges may be collected, and what service shall be rendered. The investor is completely at the mercy of the public authority, for once a railway is built the capital in it cannot be withdrawn.

It is evident that railway employes are properly subject to the same conditions. They may retire individually, to enter other employment. They may have their brotherhood associations and their representative officials to present their claims, but they should not be privileged to use their organizations either to suddenly stop the traffic of the country, or to compel the payment of wages in excess of what would be determined in fair arbitration proceedings. The right of a few to sacrifice the many has never yet been successfully upheld.

Section 6 of the Clayton Act was deliberately designed to protect labor organizations in a situation like this from the provisions of the Sherman Act, which forbids all combinations in restraint of trade. A combination to make any commodity scarce is unlawful, but a combination to make labor scarce, even though the effect is to make all commodities scarce and dear, is thought to be now exempt from this inhibition, although the provision has never been tested in the courts. Section 6 is given below, and the gist of it is said to be in the first sentence:

"That the labor of a human being is not a commodity or article of commerce. Nothing contained in the anti-trust laws shall be construed to forbid the existence and operation of labor, agricultural, or horticultural organizations, instituted for the purposes of mutual help, and not having capital stock or conducted for profit, or to forbid or restrain individual members of such organizations from lawfully carrying out the legitimate objects thereof; nor shall such organizations or the members thereof, be held or construed to be illegal combinations or conspiracies in restraint of trade, under the anti-trust laws."

Present Revenues.

The fact that during the past year railway earnings have been larger than ever before does not alter the principles involved. These earnings are due, in part, to unusual conditions, and in part to the large expenditures of capital made in recent years for the improvement of roadways and equipment. In but few instances have these earnings been used for larger dividends; they have gone thus far to relieve the pressing needs of the companies and to provide additional facilities for handling traffic. There is no loss to the public from such earnings. They improve the service, keep down capitalization, make railway investments safer, with the result that interest charges will be lower. If it should be found in normal times that the increased charges are no longer needed for the prosperity of the roads, the logical thing would be to dispense with them, and relieve the commerce of the country from them. It is not a desirable thing to have the costs of transportation increased. It is a reversal of what would seem to be the normal movement when so many mechanical economies are being adopted. It is one of the factors of rising costs which should be avoided if possible. If these charges are necessary in order to pay proper wages, as determined by public authority, they should stand, or if new charges are necessary, they should be levied, but the fact should be determined by a recognized authority.

Railway Ownership.

The idea that the railways belong to a few rich people, who perhaps never invested much in them, seems to persist to a surprising extent, and probably affects the public attitude in some parts of the country. In the newer portions of the country investments in real estate and real estate mortgages are in chief favor, and the opportunities in business are such that few even of the well-to-do are accustomed to railway investments. In the older sections of the country, however, the old and well-known railway stocks and bonds are widely distributed among people of moderate means. To a great extent they are owned by women and people who are dependent upon them for a living. The New England roads are very largely owned in this manner, but it is also true of other of the most important lines. The Pennsylvania Railroad Company made a classification of its stockholders two years ago, which showed that of the total number of shareholders at that time (88,863) about 80 per cent. held less than 100 shares each.

The division into classes was as follows:

20,527 shareholders owned ten shares or less, each;
27,014 shareholders owned 11 to 30 shares, each;
17,683 shareholders owner 31 to 70 shares, each;
6,131 shareholders owned 71 to 100 shares, each.

The statement does not show the exact amount of stock owned by these 71,355 shareholders, but an approximate estimate may be made by taking the average amount held in each class. The result would be as follows:

	Shares
20,527 shareholders held an average of 5 shares each	102,635
27,014 shareholders held an average of 20 shares each	540,290
17,683 shareholders held an average of 50 shares each	884,165
6,131 shareholders held an average of 85 shares each	521,135
71,355 shareholders held	2,048,225

The par value of Pennsylvania stock is $50. and the par value of 2,048,288 shares is $102,414,402. The total amount of stock outstanding at that time was $499,198,600. It appears, therefore, that at the beginning of 1913 more than one-fifth of the stock of the Pennsylvania Railroad Company was held by persons whose holdings did not in any case exceed $5,000 par value.

We gave a year ago a statement showing that the capitalization of this company was raised between 1898 and 1915 from $129,305,000 to the figures given above, and for this increase the company received $425,436,565 in cash, which was $45,537,965 more than the par value of the stock.

Government Ownership.

It has been said as one reason why the railways should make concessions that the controversy helps the agitation for government ownership. That would be true if the railway managers were making an arbitrary stand for terms of their own, but if the government owned the railways the question would remain practically as it is now. There are grave objections to government ownership. There is much reason to believe that transportation costs to the public would be higher under government ownership and government management than they are now. The waste, extravagance and loss of efficiency would mean more to the country than all the profits of private ownership. But there is such a thing as crippling private management to a degree at which capital cannot be had for railroad investments, and then there will be no alternative but public ownership and management. When this end is reached the problems of management will remain to be faced. Somebody will still have to determine how much all of the people will pay to that portion of the people who are operating the railways. Will there be any better way of settling it than by referring it to the Inter-State Commerce Commission, as the railway managers have proposed?

The Eight-Hour Day.

The eight-hour day, as applied to railroading, has particular phases which have been amply discussed elsewhere. As applied to industry generally, it is something about which it is unwise to be dogmatic or arbitrary. It is best dealt with in a practical, experimental way, as the work-day has been shortened in the past, without sweeping changes. It has been found in some industries to the satisfaction of employers, that year in and year out as much work is done by men working eight hours as in ten hours, and where this demonstration is made there is no more controversy. Society is interested in having hours of labor so adjusted that the workers will develop and maintain their highest efficiency and give the highest volume of production, but that would not make the hours the same in all occupations. If the workday is reduced below this point of maximum results the supply of products will be reduced, and if wages are not directly lowered they will buy less, which amounts to the same thing. If railway trainmen are to make shorter runs in the future, more men will be required in that service, and they will have to be withdrawn from farming and other occupations. Production will be curtailed, and no member of the community can escape the effects of it, any more than he can escape the effects of rust upon the wheat crop or of the boll weevil upon cotton.

When it is said that society has made up its mind to the eight-hour day, are we to understand that society has definitely concluded to work less, produce less, consume less and be less ambitious than in the past?

The fact is that there never was a more inopportune time than now for doing anything that will have the effect of reducing production. The withdrawal of millions of men from the ordinary industries for service in the armies, and for war work, has already advanced the prices of all the necessaries of life, and put a check upon the normal progress of the world. The only way society can recover these losses and resume its forward march is by increasing the productiveness of its industries, and at this time the United States is almost the only large country where this can be done. Common sense, common patriotism, common sympathy with and loyalty to humanity the world over, calls upon the people of this country to work in this emergency as they never worked before. To insist upon having an easier life at such a time, when it means greater hardships for all the world, would be like taking a holiday when work was needed to keep people from starving. If the facts were seen in all their true relations, the American people would do nothing of the kind.

And that is not all. The industries and trade of this country are involved so closely with the trade and industries of other countries that we

cannot reorganize our industrial system upon a radically different and artificial basis without suffering hereafter. The present exemption from foreign competition is only temporary. We must come back in time to approximately the same relationship to world values as existed before the war. Gold will be the standard of value here and abroad. If we fancy that we can raise all wages and all prices in this country to a relationship with gold which takes no account of that ruling in other countries, we shall be dreaming of a fool's heaven. In the first place, if it was possible to so isolate ourselves we would be losers instead of gainers by it; in the second place such isolation is impossible, and an attempt to maintain such an artificial structure would certainly be to expel gold from this country, as the one thing that could be exported advantageously, and the result would be a paralysis of enterprise and industry. History has shown repeatedly that a state of prosperity which is based upon abnormal conditions, such as exists now in the United States, carries very grave perils. Even though all possible restraint and wisdom be exercised, some degree of reaction is bound to follow. That reaction will be made worse by every departure from the economic principles which govern business affairs the world over.

The Labor and Capital Problem.

Every industrial dispute like the one between the railway companies and brotherhoods is related, of course, to the larger problem of the general distribution of wealth and income, and stimulates discussion of the whole subject. Unfortunately the discussion is usually extremely superficial. A great many people regard each dispute as simply one phase of a continuous struggle which is necessary in order that labor may win from capital a fair share of the results of their joint efforts. There is slight recognition of any general economic law governing the distribution of wealth, or of its silent but inevitable accomplishments. In the railway controversy the wage-earners are set over against the managers or shareholders, as though there was a fixed amount for them to divide and nobody else was concerned. And so there is a common assumption in industrial disputes that the only obstacle to higher wages and shorter hours is the stubborn unwillingness of employers to grant them.

There is, however, an abundance of evidence to show that the lot of the average employer is far from an easy one. The Federal Trade Commission has reported, as the result of an official inquiry, that a majority of the manufacturing establishments of this country are not making even a fair profit. This is the usual situation. The leaders are always making money and raising the efficiency of industry to higher levels, while the tail-enders are always losing and in process of being eliminated. These differences in management and efficiency always exist. Industry is undergoing constant evolution, but no sudden revolution is possible. Few will deny that organization among wage-earners and legislation for the regulation of working conditions have corrected abuses and accomplished good, but the great advance that has taken place in the condition of the masses has been mainly due to the improvements in methods of production which have been worked out in the competitive struggle. The efficient organization of industry and transportation, the multiplied use of machinery, the growth of capital, the development of banking and of credit facilities, these have enormously increased the production of goods and the demand for labor. These agencies have made possible and inevitable the shorter work day and higher wage.

Organization is not a new thing among wage-earners. The strike and boycott have been known in China for centuries, and no people are more expert in their use, but the lot of the Chinese laborer has not been raised to the level of the laborer in the United States, for the reason that capital has not been applied to industry in China as it has in this country. The wheel-barrow is still the principal means of transport in China, and factory organization and factory machinery are almost unknown there. The elevation of the Chinese masses waits on these things, and when they are supplied the lot of the workingman in China will change, as it has changed here.

Distribution of Wealth Measured by Consumption Rather Than Ownership.

The fundamental thing about the relationship of wealth to the general welfare is the fact that the final distribution is in goods and services for personal use. The fact that a man makes money enough with one factory to build another is of less significance than the fact that the output of goods is doubled. The ownership of the railways is of less significance than their service to the public. People are impressed by statements showing a large proportion of the wealth of the country in few hands, but this wealth is in productive property, to wit, farms, factories, machinery, railways, etc., in short, in the means of providing goods and service to the public. It would be desirable, no doubt, to have the ownership of these things more widely and equally distributed than it is at present, but after all the value of these things is not in themselves but in the products that flow out from them. All of the benefits come out in the flow; the real distribution of serviceable wealth is there.

The chief interest in the ownership of productive property is in having it efficiently handled, so that the product will be as large as possible, and it may be more efficiently handled in few hands than in many. But when it comes to the

distribution of products we see that this cannot be confined to a few. Nobody wants to confine it; everybody is struggling for the largest possible distribution. The goods must go to the people. The public must buy and consume them or the whole business of production comes to a standstill. If the owners of productive property control the market so as to increase their profits, they cannot use the profits in business except to increase production, either in their own line or some other, and there is no outlet for this increasing supply except by distribution to the public.

Production and Consumption Must be Equal.

Production and consumption are bound to be in equilibrium. The owners of capital may combine and contrive in their efforts to make money, but the more they make and put into business the more goods there will be on the market, and unless these goods are distributed and consumed the stream will be dammed up, production will be choked off, and further accumulations of capital will be impossible, and if possible they would be useless. It is the growing purchasing power of the public that gives employment to new capital.

People fret and protest, and legislative bodies investigate and resolve, when oil, or paper, or wheat, or some other commodity, goes up in price, and the producers are known to be making unusual profits, but these profits create a fund for the correction of the shortage, and the correction of the shortage is the vital thing. The surest remedy for high-priced capital is more capital.

In short, increasing profits, meaning as they do more capital seeking investment, are bound to result in an enlargement of the industries, the installation of more machinery, the more rapid substitution of new processes for old, and a general advance in the position of the entire community, with widely distributed benefits.

Each line of industry is expanded and developed largely by means of the profits made in it, and its rate of progress corresponds to them. The money that has been made in cotton mills in the Southern States has gone back into new cotton mills and better ones, and the profits of the cotton industry in New England have gone in the same direction.

Frequently, capital accumulated in one business finds other fields in which to do development work. A citizen of Atlanta, Georgia, Mr. Asa G. Candler, having made a fortune in the manufacture of a popular drink known as "Coca-Cola" has invested a million dollars within the last year in perhaps the best cotton-storage warehouse in the world. It is built of concrete and equipped with a sprinkler system, and has secured an insurance rate upon cotton of one-fifth of one per cent. per annum, against an average rate upon cotton in miscellaneous storage of about 3½ per cent.; it is equipped with a trolley system by means of which cotton can be loaded and unloaded at a cost of 1½ cents per bale, against an average cost of handling by trucks of 16 cents per bale; it is equipped with a high density compress, which secures a saving of approximately $1.00 per bale on ocean freights and one-fourth of one per cent. on marine insurance. Finally, receipts for cotton stored in this warehouse make a class of collateral upon which money can always be borrowed in any money market of this country at the lowest ruling rates. This warehouse is for the service of any cotton grower or dealer or consumer. A Georgia farmer can store his crop with perfect security until he is ready to sell; a cotton goods manufacturer in Georgia or Massachusetts may buy and store against future needs, or a trader or investor may use the facilities. Millions more are being invested in similar warehouses at Memphis, New Orleans, Houston and other points in the South.

A great many manufacturing companies are making unusual profits this year, but these profits are being used, for the most part, for strengthening the position of the companies, enlarging their capacity and putting them in condition to produce more economically in the future. These expenditures will not inure to the benefit of the owners exclusively; the natural effect will be to provide more employment and steadier employment, and to increase the supplies of goods on the market.

The Lackawanna Viaduct.

The Lackawanna Railroad Company last year completed a costly piece of cut-off construction between New York and Buffalo, building 38 miles of new road with a great viaduct, at a cost of $12,000,000, to take the place of 41 miles of track over heavy grades and with sharp curves. In the early years of the road's history such construction would not have paid, and probably was not thought of. But now, with greater traffic, heavier equipment and higher wages, there is economy in spending more upon the roadway. The savings in moving the traffic will pay the interest on the new capital that has been borrowed and amortize the principal. There is a gain of wealth to the community, an improvement in the service, and no member of the community is so remote or so humble that the benefits of such improvements do not reach him. They are improvements in the equipment of society, and it is impossible that the effect of such changes shall not be widely diffused. They make the difference between the condition of the workingman in China and the workingman in the United States.

The capital for the 38 miles of new road may have come from people in widely different circumstances. Some of it may have been supplied by savings banks and represented the small savings of wage-earners; some of it may have come from misers whose penurious habits are not admired; some of it may

have come from the surplus incomes of employers who ought in fairness to pay higher wages than they do; but wherever the money came from it is now placed where it renders a widespread service to the public. And when the interest upon this investment is turned back into a similar improvement on another railroad, or into some other constructive and productive work, and as we follow down and find all of the increment going into public works, it is pertinent to ask how the private owners derive any benefit from these investments. The answer, of course, is that they derive exclusive benefits only from what they eat and wear or otherwise withdraw from public use and devote to themselves or their dependents. All the rest of their income goes to public uses as effectively as though it was donated to the public treasury. What better could the treasury do with it?

The public grievance against great private incomes narrows down to undue and wasteful personal expenditures, which, although offensive in instances, are a very small factor in the total.

Census Figures.

We have heretofore found occasion to call attention to the remarkable growth of capital as a factor in the industries of this country, but the figures are worth repeating at every opportunity. In the three five-year periods 1899-1904, 1904-1909, 1909-1914 the principal figures for our manufactures, as collected by the census, showed increases over those for the preceding period as follows:

	Percentage of increase		
	1904 over 1899	1909 over 1904	1914 over 1909
Capital employed	41.2	45.4	23.7
Primary horse-power	33.6	38.5	20.7
Wage-earners, average number	16.0	21.0	6.4
Total wage payments	30.0	31.0	19.0
Value of products	29.7	39.7	17.3
Value added by manufacture	30.3	35.5	15.8

This table will repay careful study. All percentages of increase were noticeably less in the last period, showing a smaller expansion of industry, and indicating that profits were lower. The tendency, however, was the same throughout all periods. The number of wage-earners shows a lower percentage of increase than either amount of capital or amount of wage-payments or value added by manufacture. (The latter term is used by the census bureau to indicate value of product after deducting cost of constituent materials.) The value of product added in manufacture increases by a percentage lower than the increase of capital or wage-payments, but higher than the increase in number of wage-earners.

These figures support the judgment long pronounced by economists that labor, by the inevitable workings of natural law, gets a constantly increasing share of a constantly increasing product. The wage-earners not only gain in wages but in having their manufacturing done for them at lower cost through the increasing use of capital. If their position does not improve absolutely the explanation must be found in the prices of materials and other things outside of the field in which labor and capital are the chief factors. Labor has unmistakably gained where labor and capital divide the proceeds of their joint efforts, but has lost some of these gains to the producers of grain, meats and other natural products.

In 1899 the amount of capital employed in manufacturing was $1,770 to each person employed, in 1904 it was $2,117, in 1909 it was $2,488 and in 1914 it was $2,848.

If all the effects of the increase in capital were on the side of prices, a greater reduction would be shown, but in part the influence is upon wages. Every increase in the supply of capital makes an additional demand for labor, and with capital increasing faster than population, as it does, there is bound to be an upward tendency in wages. Moreover, the gains in production give better living conditions, better educational advantages, with the result that wage-earners are not only more efficient but more independent and capable in making their bargains. Unless there are gains in the purchasing power of the public, either through lower prices or higher wages, a growth of production greater than the growth of population cannot be absorbed.

The Law of Progress.

It does not follow that an individual or group of wage-earners may not be interested, and justly interested, in increasing his or their wages at the expense of employers' profits. The effect may be to increase present consumption and curtail the accretions to the investment fund, or it may cause the contributions to the investment fund to reach it through other channels. The fundamental truth is that all surplus above current living expenses, whoever owns it, goes into the investment fund, the growth of which finances the progress of society. Obviously, the more there is saved from current consumption and put into productive equipment the more rapid the progress of society will be, and capital tends naturally to accumulate in the hands of people best able to use it in the creation of more capital. This is only repeating by the operation of economic law what millions of people do voluntarily, when they deny themseves that their children may start life under more favorable circumstances. It is evident that if this view was accepted much of the bitterness of industrial disputes, which arises largely from a feeling of class interest and class injustice, would disappear, and with its disappearance would come more harmonious relationships, greater efficiency and more rapid progress.

The Views of Economists.

The foregoing views are not new. They have been held in substance by the leading economic

authorities, but they are taught so ineffectively in the schools that the truths embodied are practically without influence in every day life. They come to the surface, however, in nearly every treatment of fundamental conditions. A comprehensive work upon the "Wealth and Income of the People of the United States, by Dr. Willford I. King," of the University of Wisconsin, has recently appeared in "The Citizens' Library of Economics, Politics and Sociology," edited by Dr. Richard T. Ely, head of the Department of Political Economy of the same University. We take the liberty of making a few extracts which are pertinent to this discussion:

"After all reasonable allowances have been made, the fact remains, practically, that, beginning with 1870, there has been an increase in the national dividend so enormous that it cannot logically be ascribed to anything but the tremendous advance in productive power due to the revolutionary improvements in industry which have characterized the last half century. It seems improbable that any other great nation has ever experienced such sweeping gains in the average income of the inhabitants. It has, almost necessarily, been accompanied by a great rise in the standard of living."

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"Of late, we have had a period of 'muck-raking' in which all things that exist have been pictured as very bad and growing worse. The misery of life, the difficulty of making both ends meet, has been over-emphasized. True, it is just as difficult to secure the articles required by our standard of living as it ever was. But, our standard of living has grown more expensive. Increases in quality cost even more than increases in quantity. Our wants always have and probably always will increase with our ability to satisfy them so that there is never any hope of winning the race with our standard of comfort. Such a race is just like chasing one's shadow. Nevertheless, to the present author, a larger per capita supply of economic goods appears to be a most distinct benefit to any nation and the United States has been greatly favored in this line during the last sixty years."

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"The period 1850-1900 saw that come to pass in the United States which the English economists of the earlier nineteenth century deemed impossible—the improvement of the workingman's economic welfare to the extent that he was lifted out of the conditions formerly thought inseparable from a working life. He tasted the cup of learning; he experienced the joys of leisure and entertainment; and he so limited the size of his family as to enable his children to continue to secure these advantages. Larger income and more learning naturally brought more power and secured more respect. The army of labor became an ally to be courted or an enemy to be feared."

After a careful discussion of the division of the national income among all classes, Dr. King reached the conclusion that if all rent, interest and profits were added to wages the sum of the latter would not be increased by more than one-fourth. He says:

"It would seem improbable that, with our present national productive power, any feasible system of distribution could increase the average wage earner's income in purchasing power by more than one-fourth and this is an extreme rather than a moderate estimate. While such a change might or might not be desirable, it would, at least, work no startling revolution in the condition of the employees of the United States. The grim fact remains that the quantity of goods turned out absolutely limits the income of labor and that no reform will bring universal prosperity which is not based fundamentally upon increasing the national income. After all, the Classical Economists were right in emphasizing the side of production in contradistinction to that of distribution. Nature refuses to yield her bounty except in return for effort expended. Demands for higher wages have never yet unlocked her storehouses."

Dr. King might have added that, saying nothing about the disorganization of industry which would result from confiscating all rent, interest and profits, and assuming that production would continue to be as great after all the incentives to leadership were removed, there would certainly be a check upon capital accumulations, with the result that additions to the productive equipment would be correspondingly reduced. Society would use up more of its current earnings in current consumption, and industrial progress would be retarded accordingly.

A Country Banker's Views.

We are in receipt of a letter from a country bank president who is also a farmer, residing in the town of Palmyra, Wisconsin, which contains so much practical wisdom that we give it nearly in full. It comes from one who is close to the soil, the source from which the most necessary kinds of wealth must come, and reads as follows:

"I wish I had a means of being heard by every laboring man from Coast to Coast. I would say to him: 'If there ever was a time when you laboring men should let well enough alone, it is NOW, and this is WHY.'

"Crops are of a light average. An excessively wet and cold late Spring and early part of Summer was a bad handicap. An unusually hot and dry mid-Summer blighted the hopes of promising early sowed and planted grain and ruined late sowed stuff on heavy and low land. Fruits and berries are scarce and vegetables and poultry are almost rare. Milk production is off about 30 per cent. and stocks of condensed and powered milk are unusually low.

"Owing to high wages and short hours, labor for the farms has been scarce. Weeds have grown undisturbed, shortening the crops this year and filled the land with foul seed to be a curse for a generation. At a time when many a farmer who has worked for fourteen and sixteen hours a day will barely live and breathe even, why should railroad or other employes, who are getting more wages and full employment, strike for more? Especially when they are getting as much gold or its equivalent for a week's work as one of the poor fellows in the trenches laid by in a year or even more; and our laboring people should know that it is by the gold that the poor fellows referred to have spent years to lay by, that they (our laboring people) are prospering by now.

* * * * *

"It is, perhaps, hard for the average laborer to comprehend how a weedy potato field in Wisconsin should shorten the allowance on *his* table, but it has its effect, just as sure as dipping a pail of water from Lake Michigan into the drainage canal, makes one pail less to go over Niagara, and if there is nobody to wield a hoe, the weeds will grow.

"Personally, I fear results of shortening hours more than the raising of wages. The inflation by the

Federal Reserve system, for one thing, and still more the inflow of gold as a basis of credit expansion, may compensate for increased wages.

"*BUT* our manner of living—that is, the degree to which all may be indulged in the good things or necessities of life, depends entirely on how much or how many of these things there are to go around, and it is a foregone conclusion that if hours of labor are reduced, less is produced, and somebody must go without something. I believe that if every labor leader and every politician would comprehend the foregoing, which I believe to be *fact*, and set it before the masses, the average of intelligence is high enough so it would have a marked effect."

C. CARLIN,
President, Bank of Palmyra.

Foreign Trade and Exchange.

The cross currents in our international relations created by the merchandise trade balance, the movement of securities and the foreign loans in this market, occasion a great amount of calculation as to the net change in our position. A good many people arrive rather hastily at the conclusion that we have about paid off our foreign indebtedness and become a creditor nation, but that announcement is premature. The favorable balance of trade on merchandise account for the year ended June 30th last was $2,135,775,355, and for the two years ended that day, $3,230,194,955. To this should be added $47,469,112, the value of our net exports of silver, which are still reported separately. The total, excluding gold, for the two years, was therefore, $3,277,664,067. Foreign deposits in American banks are much larger than before the war, perhaps $500,000,000 greater, and these credits should be added to the above balance to reach the total sum for which other countries have had to make settlement with the United States. The aggregate would be $3,777,664,067. How has this been met?

The net importations of gold in the two years were $403,761,219, reducing the above balance to $3,373,902,848. From this must be deducted the invisible offsets representing interest, dividends, tourists' expenses, shipping and insurance charges, gifts and other remittances not covered by the shipment of goods.

The usually accepted estimate of the total investments of foreigners in the United States before the outbreak of the first Balkan war in 1912 was $6,000,000,000. The return flow began about that time, and the current has been in this direction ever since. The most definite information about the foreign holdings of our securities and the amount returned to this country since the war began was gathered by Mr. L. F. Loree, President of the Delaware & Hudson Railroad Company, who addressed an inquiry to all railway companies having more than 100 miles of road. The returns covered the six months from February 1, 1915, to July 31, 1915, during which time the foreign holdings of stocks, bonds and notes issued by these companies were reduced from $2,704,402,963 to $2,223,570,828, par value, or in the sum of $480,892,135 par value. The market value of the remaining holdings on July 31, 1915, was calculated at $1,751,437,912 or 17.7 per cent. below par. If those returned are reckoned at the same rate they would represent a little less than $400,000,000. This did not include sales of securities held in the names of American bankers and brokers for foreign account.

Persons well informed upon British investments have been of the opinion that other British interests in America, including industrial investments, public utilities, municipal bonds, real estate, mortgages, mines, etc., would equal the investments in railways. If so, the aggregate of all foreign investments here would be fully $5,000,000,000 at the outbreak of the war. Other investments have not been liquidated to anything like the same extent as railways, for the reason that for the most part they could not be disposed of so readily.

Although the market was depressed at the time Mr. Loree's estimate was made, it is evident that regular payments were not being made on some of the holdings. Payments for the second year would be less than for the first, on account of the securities returned, and there is an offset in the second year of perhaps $40,000,000 for interest upon loans in this market since the war began. Allowing for these and for some returns on American investments in other countries, the balance upon interest and dividend payments abroad may be conservatively estimated at $300,000,000. It has always been calculated that a large portion of this class of income was reinvested in this country, and we may say that this was done to the extent of $100,000,000, leaving $200,000,000 to count against the trade balance.

The balance against us on shipping and insurance charges would hardly be less than $100,000,000 in the two years.

Remittances from this country for gifts and savings have been large in recent years. There is no definite way of distinguishing these remittances from others, but it is usually considered that most of the postal money orders drawn on European countries are for personal payments of this character. In the fiscal year 1900, these aggregated $16,749,018, and from this they rose steadily until in the fiscal year 1914 they were $91,285,920. This does not include those drawn on Canada, Mexico and the West Indies, which in 1914 amounted to about $10,000,000. In the fiscal year 1915 the money orders drawn on European countries dropped to $51,662,120. The figures for 1916 are not available, but are understood to be considerably nearer normal than in 1915. Of the above total in 1915, $15,748,613 was remitted to Italy and $11,726,664 to Great Britain. Bankers who deal with the wage-earning classes are of the opinion that this class of remittances to Italy through banks exceed those by the Post Office and that this is generally true. It is prob-

able that these remittances in the two years have aggregated $200,000,000.

Tourists' expenditures may be dropped from the calculation on the assumption that the expenditures of foreigners here are now equalling the expenditures of Americans abroad.

These running counter charges against our trade balance, aggregate $500,000,000 and deducted from $3,373,902,848 would leave about $2,874,000,000 to be covered by loans and by the sale of securities and interests of all kinds in the United States since the war began. The net amount of all foreign loans to July 1, 1916, was about $1,100,000,000.

This calculation would indicate that the total of all sales of securities and interests in this country for foreign account in the period named, was from $1,750,000,000 to $1,800,000,000.

These figures for the most part are only estimates, and there are differences of opinion among experts upon every item.

The Money Market.

The money market has continued in a state of ease throughout the past month. The surplus reserves of the New York banks are higher than they have been since early in April last, now $125,000,000. Loans are lower than they were throughout the spring months, and cash reserves, as a result of gold importations, are higher than since last winter. Money rates have been working slightly easier and good commercial paper is wanted. Reports from the interior indicate that there will be only a light demand on New York this fall. Money over the year is loaned at 4 to 4½ per cent. The foreign government loans, taken mainly by banks, to Great Britain, France and Russia, aggregating $400,000,000 have had no noticeable effect upon the supply of money. The one thing in sight that might make money tight is the railway strike, which would interfere with deliveries of goods and put a stop to the flow of payments. The industries would continue to run until obliged to stop for want of materials and supplies, and would have to borrow freely while accumulating product.

The Bond and Stock Market in August.

The net change in the general level of bond prices during August has been slight. The average price of 40 listed bonds, as compiled by the *Wall Street Journal*, was 93.88 on August 26, compared with 93.74 on August 1, 93.97 on July 1, and 89.96 on August 26, 1915. Activity in government bonds, on account of heavy trading in Anglo-French 5s and American Foreign Securities 5s (French Loan) has been pronounced, and has represented 35% of the total. For the same period in 1915, government bond sales comprised only about 1⅔% of the total bond transactions on the Exchange.

The favor which the external loans of governments having good credit enjoy is indicated by this increased business in foreign government bonds, as our investors become more and more familiar with such issues. On account of a rise in New York exchange on Petrograd, the Imperial Russian Government 3-year 6½% Credit is attracting special attention. American investors are beginning to appreciate the fact that if our exports are to continue at anything like the present high level, payments by the European Powers must be made in part at least by means of credit obligations. Imports of goods and gold and resale of securities will not suffice. Banks have liberally extended their facilities in the form of bank credits and acceptances, but it is still more necessary that individual investors carefully study the unusual opportunities for high yield and good security furnished by many of these external foreign loans which are being offered in the United States. The payment of these short term obligations in this country within the next few years is going to give us a power to check gold exports that will be extremely useful.

The $250,000,000 British Government 2-year 5% notes dated Sept. 1, 1916, offered this month at 99, is the second largest foreign loan ever brought out in the United States. The notes, which were quickly taken, especially by institutions, are redeemable on 30 days' notice at 101 prior to September 1, 1917, and at 100½ thereafter. Unlike the recent French loan, they are a direct obligation of the Government, and in addition are secured by 120 per cent. in collateral. The collateral consists of $100,000,000 American corporation securities, $100,000,000 Dominion of Canada and Canadian Pacific issues, and $100,000,000 in obligations of various neutral countries. Provision is made for the maintenance of the market value of the collateral pledged at 20% above the amount of notes outstanding. The Notes are payable in New York, in U. S. gold, and are free from all British taxes. It is estimated that foreign governments and foreign corporations have borrowed in this market, including bank credits, about $1,700,000,000 since the outbreak of the war.

Bill of Lading Legislation.

At last, after years of effort on the part of the American Bankers' Associations and Chambers of Commerce, Congress has passed the bill-of-lading bill, known as the Pomerene bill, which makes bills-of-lading as safe as warehouse receipts as evidence of the possession of and responsibility for goods.

Section 22 of the bill adopts a rule, long in force in our leading commercial states, which rule makes the carrier liable to a bona fide consignee or banker who pays or loans money upon a bill of lading issued by an authorized agent,

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS AUGUST 25, 1916.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif's. Settlement fund. Cr. Balances	9,303	147,557	10,833	14,359	5,055	5,855	35,674	5,425	6,276	4,210	5,366	9,886	259,799
Gold Settlement Fund.....	16,466	11,077	17,251	9,218	11,637	1,058	16,579	4,343	3,431	10,446	4,424	5,021	110,951
Gold Redemption Fund...	5	250	50	20	451	125	200	19	30	134	343	10	1,637
Total gold reserves..	25,774	158,884	28,134	23,597	17,143	7,038	52,453	9,787	9,737	14,790	10,133	14,917	372,387
Legal tender notes, Silver certif's and Sub. coin....	208	5,625	762	1,101	163	1,203	903	1,144	426	61	617	52	12,265
Total Reserves......	25,982	164,509	28,896	24,698	17,306	8,241	53,356	10,931	10,163	14,851	10,750	14,969	384,652
5% redemption fund—F. R. bank notes										400	100		500
Bills discounted, Members Commercial paper	869	664	290	274	6,037	3,660	2,875	883	1,855	1,918	7,188	519	27,032
Bill bought in open market	10,390	29,422	9,969	7,003	725	1,751	5,683	5,586	3,109	1,005	549	6,954	82,146
Total bills on hand..	11,259	30,086	10,259	7,277	6,762	5,411	8,558	6,469	4,964	2,923	7,737	7,473	109,178(c)
Investment U. S. Bonds...	2,992	2,220	2,890	5,579	1,129	1,508	9,393	2,724	3,399	9,647	2,681	2,634	46,796
One-year U.S. Treas. notes	250	2,282	818	760	684	526		570	350	616	529	820	8,205
Municipal Warrants.......	2,890	7,276	2,550	4,755	336	166	4,291	1,822	1,044	399		2,334	27,863
Total Earning Assets	17,391	41,864	16,517	18,371	8,911	7,611	22,242	11,585	9,757	13,585	10,947	13,261	192,042
Federal Reserve Notes, net	910	14,015	384	426			1,300	999	1,704			1,484	21,222
Due from other F.R. Banks net.....................	410	3,287		3,194	196	1,278	7,815	3,115	568	1,789	320	1,961	21,654(b)
All other resources........	118	362	123	390	167	518	411	544	101	196	383	228	3,541
TOTAL RESOURCES.....	44,811	224,037	45,920	47,079	26,580	17,648	85,124	27,174	22,293	30,821	22,500	31,923	623,611
LIABILITIES													
Capital Paid in............	5,023	11,596	5,221	5,995	3,363	2,490	6,675	2,791	2,589	3,007	2,691	3,922	55,363
Government Deposits.....	3,246	12,877	6,615	2,064	3,662	3,071	5,731	4,446	992	1,342	2,227	3,826	50,099
Reserve Deposits, net.....	36,429	199,564	31,719	39,020	14,865	10,708	72,718	19,937	18,712	23,504	11,070	24,175	502,421
Federal Reserve Notes-net					4,577	1,366				1,278	6,512		13,733(a)
Federal Reserve Bank Notes in circulation.....										1,690			1,690
Due to other F. R. Banks net.....................			2,299										
All other Liabilities.......	113		66		113	13							305
TOTAL LIABILITIES	44,811	224,037	45,920	47,079	26,580	17,648	85,124	27,174	22,293	30,821	22,500	31,923	623,611

(a) Total Reserve notes in circulation, 156,345.
(b) After deduction of items in transit between Federal Reserve Banks, 21,654, the Gold Reserve against Net deposit and note Liabilities is 68.4% and the cash reserve is 70.6%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation, 71.4%.
(c) Maturities of bills discounted and loans: within 10 days, 12,955; to 30 days, 27,507; to 60 days, 42,781; other maturities, 25,935; Total: 109,178.

certifying the receipt of goods, although no goods in fact have been received. It rightly applies the rule which makes the principal responsible for the act of his authorized agent performed within the scope of his authority to one who relies thereon to his injury. This same principle applies to banks and other corporations which issue negotiable documents and there is equal necessity that it should apply to carriers; otherwise, the bill of lading fails in its function as an instrument of credit.

Section 37 contains another important provision. That section gives full negotiability to bills of lading and thereby affords greater protection to the discounting banker and to the purchaser of the goods. Where they acquire a bill of lading in good faith, that bill is made enforceable and is not subject to some unknown defect in the title of a prior holder.

The Pomerene bill makes criminally liable the person who forges a bill of lading and the agent who issues a bill that does not represent goods. This is a much needed reform. No punishment whatever is now provided for such criminals under the Federal law. At this time when we are making special efforts to increase our international trade this legislation is of great importance.

Discount Rates.

Discount rates of each Federal Reserve Bank in effect August 30, 1916.

	MATURITIES				Agricultural and live-stock paper over 90 days.	Trade acceptances. F		Commodity paper. E
	10 days and less.	over 10 days to 30 days, inclusive.	over 30 to 60 days, inclusive.	over 60 to 90 days, inclusive.		To 60 days, inclusive.	Over 60 to 90 days inclusive.	
Boston....	3	3½	4	4	5	3½	3½	A 3½
New York	3	4	4	4	5	3½	3½	....
Philadel'a	3½	4	4	4	4½	3½	3½	A 3½
Cleveland	3½	4	4½	4½	5	3½	4	....
Richmond	......	4	4	4	4½	3½	3½	A 3½
Atlanta...	......	4	4	4	5	3½	3½	B 3
Atlanta New Orl's br.	......	....	....	....	....	C 3½-4	C 3½-4	....
Chicago..	3½	4	4½	4½	5	......	......	....
St. Louis..	3	4	4	4	5	D 3	D 3½	3
Minn'plis.	......	4	4	4½	5	3½	3½	3½
Kans. City	4½	4½	4½	4½	5	4	4	4
Dallas....	......	4	4	4	4½	3½	3½	B 3
SanFr'sco	3	3½	4	4½	5½	3	3½	E

A Rate for commodity paper maturing within 90 days.

B Rate for bills of exchange in open market operations; Atlanta 3½—5½; paper bought, Dallas 3 — 5.

C Rate for trade acceptances bought in open market, without member bank indorsement.

D A rate of 2 to 4 per cent for bills with or without member bank indorsement was authorized on Dec. 21, 1915.

E Rate for commodity paper maturing within 30 days, 3½ per cent; over 30 to 60 days, 4 per cent; over 60 to 90 days, 4½ per cent; over 90 days, 5 per cent.

F Rate for trade acceptances to 30 days inclusive: Boston 3½ New York 3½; Philadelphia 3½; Cleveland 3; Richmond 3½; Atlanta 3½; Atlanta (New Orleans Branch) 3½-4; St. Louis D 3; Minneapolis 3½; Kansas City 4; Dallas 3½; San Francisco 3.

Atlanta Federal Reserve Bank.

The last number of this Bulletin stated that four Federal Reserve banks had begun dividend payments, to wit: Richmond, Dallas, Kansas City and Chicago. We regret very much to have inadvertently overlooked the Atlanta bank, which on June 30th last declared a full six per cent. dividend up to December 31, 1915. We hasten to make the correction.

Net earnings for the twelve Federal Reserve banks for the six months ending June 30, 1916, were $804,509.80, or at the rate of 2.9 per cent. on the paid in capital at the close of the period.

THE NATIONAL CITY BANK OF NEW YORK.